



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LEE COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Lee County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$10,122 from the prior fiscal year, resulting in a cash surplus of \$635,526 as of June 30, 2001. Revenues increased by \$667,301 from the prior year and disbursements increased by \$988,198.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds. However, the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. Reese, Lee County Judge/Executive
Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Lee County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Lee County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Lee County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Lee County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. Reese, Lee County Judge/Executive
Members of the Lee County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 10, 2002, on our consideration of Lee County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Lee County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 10, 2002

LEE COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

L. C. Reese	County Judge/Executive
Billy J. Coomer	Magistrate
Carl Ross	Magistrate
Ronnie P. Begley	Magistrate
Rhonda Brandenburg	Magistrate

Other Elected Officials:

Tom Jones	County Attorney
Authur Noe	Jailer
Russell Stamper	County Clerk
Emma Adams	Circuit Court Clerk
Harvey Pelfrey	Sheriff
Gary Lutes	Property Valuation Administrator
Emmett Daughtery	Coroner

Appointed Personnel:

Pearl Spencer	County Treasurer
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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

LEE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash \$ 155,462

Investments 250,000

Road and Bridge Fund:

Cash 70,885

Jail Fund:

Cash 17,964

Local Government Economic Assistance Fund:

Cash 435

Investments 50,000 \$ 544,746

Special Revenue Fund Type

Ambulance Fund:

Cash \$ 64,942

Investments 25,000

Accounts Receivable (Note 4) 96,870

Solid Waste Fund:

Cash 839 187,651

Other Resources

General Fund Type

General Fund:

Amounts to be Provided in Future Years for Note Payments 9,214

Total Assets and Other Resources \$ 741,611

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Principal on Land - Public Service Corporation (Note 6)	\$	9,214
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Special Revenue Fund Type

Ambulance Fund:

Deferred Revenue (Note 4)		96,870
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Fund Balances

Unreserved:

General Fund Type

General Fund	\$	405,462
Road and Bridge Fund		70,885
Jail Fund		17,964
Local Government Economic Assistance Fund		50,435

Special Revenue Fund Type

Ambulance Fund		89,942
Solid Waste Fund		839
		<u>635,527</u>

Total Liabilities and Fund Balances	\$	<u>741,611</u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LEE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,413,177	\$ 1,819,784	\$ 718,560	\$ 198,653
Other Financing Sources:				
Transfers In	130,363	60,000		48,363
Kentucky Advance Revenue Program	969,500	961,300	8,200	
Total Cash Receipts	<u>\$ 4,513,040</u>	<u>\$ 2,841,084</u>	<u>\$ 726,760</u>	<u>\$ 247,016</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,403,055	\$ 1,840,360	\$ 672,230	\$ 253,942
Other Financing Uses:				
Transfers Out	130,363		60,000	
Kentucky Advance Revenue Program Repaid	969,500	961,300	8,200	
Total Cash Disbursements	<u>\$ 4,502,918</u>	<u>\$ 2,801,660</u>	<u>\$ 740,430</u>	<u>\$ 253,942</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 10,122	\$ 39,424	\$ (13,670)	\$ (6,926)
Cash Balance - July 1, 2000	<u>625,405</u>	<u>366,038</u>	<u>84,555</u>	<u>24,890</u>
			**	**
Cash Balance - June 30, 2001 *	<u>\$ 635,527</u>	<u>\$ 405,462</u>	<u>\$ 70,885</u>	<u>\$ 17,964</u>

*- Cash Balance Includes Investments

** - Prior Year Cash Balances on Road, Jail, and Ambulance Funds have increased \$1003, \$670, and \$315 respectively, due to prior year voided checks.

*** - Prior Year Cash Balance for Local Government Economic Assistance Fund has been increased by \$1, due to rounding errors.

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

General Fund Type	Special Revenue Fund Type	
Local Government Economic Assistance Fund	Ambulance Fund	Solid Waste Fund
\$ 163,224	\$ 498,837	\$ 14,119
	20,000	2,000
\$ 163,224	\$ 518,837	\$ 16,119
\$ 84,120	\$ 532,434	\$ 19,969
70,363		
\$ 154,483	\$ 532,434	\$ 19,969
\$ 8,741	\$ (13,597)	\$ (3,850)
41,694	103,539	4,689
***	**	
\$ 50,435	\$ 89,942	\$ 839

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Lee County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Lee County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Lee County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Lee County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Lee County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund (LGEA).

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Ambulance Fund and Solid Waste Fund of the Fiscal Court are reported as Special Revenue Fund Types.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Lee County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Joint Ventures (Continued)

The Lee County Fiscal Court has entered into a joint venture with Wolfe and Owsley counties. They have formed the Three Forks Public Properties Corporation, a legally separate organization, in order to sell bonds to build the Three Forks Regional Jail. The Lee County Fiscal Court does not appoint a voting majority of the 10 board members; however, Lee County does appoint 4 members whereas, Wolfe and Owsley counties each appoint 3 members. Each county will be equally liable if the Three Forks Regional Jail doesn't meet the bond payment requirements. Each of the three participants will have joint control in which they have an ongoing financial interest and ongoing financial responsibility. Each county has also guaranteed the Three Forks Regional Jail payment for 15 prisoners per county at the rate of \$25 a day. The Three Forks Public Properties Corporation issued \$6,295,000 of First Mortgage Revenue Bonds for the construction of the regional jail. Each county has also guaranteed the Three Forks Regional Jail payment for 15 prisoners per county at the rate of \$25 a day even if occupancy is at a lower amount.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

LEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 4. Accounts Receivable

The county has \$96,870 of accounts receivable in the Ambulance Fund. These accounts receivable are comprised of customer billings.

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

Description	Purchase Date	Maturity Date	Interest Rate	Amount
General Fund:				
Roof	4/1/1995	10/1/2002	5.85%	\$ 11,250
Air Conditioning	2/25/1996	8/15/2003	5.85%	10,807
Voting Machines	9/3/1999	9/20/2004	4.75%	29,566
Road Fund:				
KACO-Grader	2/1/1995	2/1/2005	5.85%	45,000
KACO-Truck and Backho	7/18/1997	2/1/2007	5.85%	34,000
KACO-Road Paving	12/20/1992	12/20/2002	5.85%	16,000
Brushcutter	6/28/2000	7/20/2005	4.75%	40,450
Ambulance Fund:				
New Ambulance	6/21/2001	6/20/2004	3.67%	49,955

Note 6. Public Service Corporation - Note Payable

The Public Service Corporation, which is budgeted in the General Fund, assumed a loan balance of \$40,085 from the Kentucky Mountain Farms Co-op due the Kentucky River Point Development Fund Corporation. The Co-op deeded the real estate property to the Public Service Corporation on May 2, 1990. The property was originally purchased with the Community Development Block Grant proceeds of \$200,000 from Lee County Fiscal Court. The Fiscal Court maintains their mortgage position on the property. The Public Service Corporation is to pay \$500 per month until the loan is paid in full. The Public Service Corporation has not paid monthly payments as required by the agreement. However, a payment of \$1,000 was paid during fiscal year 2001. The balance of the loan as of June 30, 2001, was \$9,214. Subsequently on December 21, 2001, the loan was paid in full.

Note 7. Insurance

For the fiscal year ended June 30, 2001, Lee County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

LEE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,978,374	\$ 1,819,784	\$ (1,158,590)
Road and Bridge Fund	614,822	718,560	103,738
Jail Fund	253,061	198,653	(54,408)
Local Government Economic Assistance Fund	330,937	163,224	(167,713)
<u>Special Revenue Fund Type</u>			
Federal Grant Fund	37,000		(37,000)
Ambulance Fund	589,000	498,837	(90,163)
Solid Waste Fund	<u>25,377</u>	<u>14,119</u>	<u>(11,258)</u>
Totals	<u>\$ 4,828,571</u>	<u>\$ 3,413,177</u>	<u>\$ (1,415,394)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 4,828,571
Add: Budgeted Prior Year Surplus			430,868
Less: Other Financing Uses			<u>(993,212)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 4,266,227</u>

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SCHEDULE OF OPERATING REVENUE

LEE COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	Totals (Memorandum Only)	GOVERNMENTAL FUND TYPE	
		General Fund Type	Special Revenue Fund Type
Taxes	\$ 414,003	\$ 414,003	\$
In Lieu Tax Payments	6,856	6,856	
Excess Fees	3,036	3,036	
Licenses and Permits	36,222	22,103	14,119
Intergovernmental Revenues	2,355,610	2,312,090	43,520
Charges for Services	448,839	816	448,023
Miscellaneous Revenues	70,997	66,063	4,934
Interest Earned	77,614	75,254	2,360
Total Operating Revenue	<u>\$ 3,413,177</u>	<u>\$ 2,900,221</u>	<u>\$ 512,956</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

LEE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,643,431	\$ 1,459,291	\$ 184,140
Protection to Persons and Property	292,350	295,341	(2,991)
General Health and Sanitation	4,000	27,272	(23,272)
Social Services	14,250	13,170	1,080
Recreation and Culture	80,425	69,185	11,240
Roads	618,978	619,299	(321)
Debt Service	62,654	94,544	(31,890)
Capital Projects	628,248	91,664	536,584
Administration	228,514	180,886	47,628
Total Operating Budget - General Fund Type	\$ 3,572,850	\$ 2,850,652	\$ 722,198
Other Financing Uses: Borrowed Money- Kentucky Advanced Revenue Program - Principal	993,212	969,500	23,712
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 4,566,062</u>	<u>\$ 3,820,152</u>	<u>\$ 745,910</u>

LEE COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 2001
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 479,420	\$ 438,380	\$ 41,040
General Health and Sanitation	21,415	17,014	4,401
Debt Service	16,064	14,725	1,339
Capital Projects	37,000		37,000
Administration	139,478	82,284	57,194
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 693,377	\$ 552,403	\$ 140,974

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
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Members of the Lee County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Lee County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated April 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 10, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Members of the Lee County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Lee County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Lee County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lee County's management. Our responsibility is to express an opinion on Lee County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lee County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lee County's compliance with those requirements.

In our opinion, Lee County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Lee County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lee County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 10, 2002

FINDINGS AND QUESTIONED COSTS

LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Lee County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Lee County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Lee County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Lee County reported in Part C of this schedule.
7. The program tested as a major program was: Economic Development Assistance - Lee County Industrial Park (CDFA# 11.307).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Lee County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Commerce</u>		
Economic Development Administration Lee County Industrial Park (CFDA #11.307)	04-19-04344	<u>\$ 813,670</u>

LEE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LEE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

Appendix A

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LEE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Lee County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



L. C. Reese
County Judge/Executive



Pearl Spencer
County Treasurer